

# Memorandum

To: Panel Members Date: May 23, 2002

From: Diana Torres, Manager  
Peter DeMauro, General Counsel Analyst: K. Campion

Subject: One-Step Agreement for **Frito-Lay, Inc. - Irvine**  
(www.fritolay.com)

## **CONTRACTOR:**

- Training Project Profile: Retraining: companies w/out-of-state competition
- Legislative Priorities: Stimulating Exports / Imports  
Moving to a High Performance Workplace
- Type of Industry: Services (Food Distribution)
- Repeat Contractor: Yes
- Contractor's Full Time Employees:
  - Company Wide: 100,000
  - In California: 4,000
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

## **CONTRACT:**

- Program Costs: \$226,550
- Substantial Contribution: \$0
- Total ETP Funding: \$226,550
- In-Kind Contribution: \$227,657
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Los Angeles, Kern, Orange, San Diego, San Bernardino, Riverside, Ventura, San Luis Obispo
- Duration of Agreement: 24 Months

**SUBCONTRACTORS:**

None

**THIRD PARTY SERVICES:**

The California Manufacturing and Technology Association (CMTA), in Glendale, California, assisted with the application documents at no cost to Frito-Lay, Inc.

**PRIOR PROJECTS:**

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET7-0020	Rancho Cucamonga	9/06/96 – 9/05/98	\$202,472	\$8,840	4%
ET8-0614	Visalia	12/01/97 – 8/31/99	\$125,760	\$97,256	77%
ET9-1018	Modesto	4/05/99 – 4/04/01	\$186,336	\$89,360	53%

ET7-0020 - In 1997, the Rancho Cucamonga facility underwent a number of changes that were not foreseen at the time training was planned, including significant technological upgrades and site expansion. These events delayed the use of some training modules and rendered the need for other training modules unnecessary. Also, trainees in the sales group underwent a restructuring, which resulted in the number of trainees being reduced and training being delayed beyond the term of the Agreement. In addition, tracking and documentation of the training was not carried out well. As a result, Frito-Lay did not receive reimbursement for all the training that was completed.

ET9-1018 – In the final Monitoring report, dated 6/1/01, the Contractor stated that the administrative subcontractor did not have sufficient knowledge of ETP Regulations and policies; therefore, the subcontractor did not optimally plan the training. As a result, the Contractor finished training and the retention period for fewer trainees than planned.

**ACTIVE PROJECTS:**

The following are current project statistics:

Agreement No.	Term	Agreement Amount	Number To be Retained	Number Enrolled	Number Completed Training	Number retained for 90 days
ET01-0197	12/18/00 – 12/17/02	\$445,736	532	481	104	0
ET01-0365	6/30/01 – 6/29/03	\$124,410	122	118	0	0
ET02-0144	10/08/01 – 10/07/03	\$415,272	423	179	7	0
ET02-0185	11/26/01 – 11/25/03	\$109,944	83	73	0	0
ET02-0204	12/24/01 – 12/23/03	\$421,214	451	115	0	0
ET02-0207	12/24/01 – 12/23/03	\$162,340	145	0	0	0

ET01-0197 – Rancho Cucamonga: recent Monitoring Reports reflect that 20 percent of the total number to be retained have completed training to date.

ET01-0365 – Headquartered in La Mirada (16 Southern California distribution centers): 97 percent of the total number to be retained have been enrolled.

ET02-0144 – Bakersfield: recent Monitoring Reports reflect that two percent of the total number to be retained have completed training to date.

ET02-0185 – Headquartered in Manteca (10 Northern California distribution centers): 88 percent of the total number to be retained have been enrolled.

ET02-0204 – Modesto: 25 percent of the total number to be retained have been enrolled to date.

ET02-0207 – Visalia: the Start-Up Meeting report reflects that training was scheduled to commence 1/07/02; there are no enrollments to date.

The total amount of unearned progress payments paid to date for the above six active projects is \$64,132.

**NARRATIVE:**

This is the 12<sup>th</sup> Frito-Lay project to come before the Panel and the 10<sup>th</sup> project within the last five years.

Founded in 1932 in San Antonio, Texas, the Frito Company grew as a manufacturer of snack products. As of 1945, the Frito Company and H.W. Lay and Company, another snack foods manufacturer, began cooperatively selling and distributing each other's products as well as their own. In 1961, the two companies merged as Frito-Lay, Inc., which was purchased by PepsiCo, Inc. in 1965. Frito-Lay today manufactures and distributes snacks to consumer outlets throughout the United States and overseas. The Frito-Lay products include Lays Potato Chips, Doritos, Tostitos, Ruffles, Cheetos, Fritos Corn Chips, Rold Gold Pretzels, and Sunchips, as well as products under Quaker Oats, such as granola bars and energy bars.

Frito-Lay maintains four manufacturing plants in California, (Rancho Cucamonga, Kern, Modesto and Visalia) in addition to 26 distribution centers. The proposed Agreement is designed to provide training to the sales division staff of Frito-Lay who work out of the Southern California distribution centers but ultimately report to the company's sales headquarters, located in Irvine California. This is the first project designed specifically for the sales employees. Although the proposed trainees are housed at 16 Southern California distribution centers that are currently receiving ETP funding under ET01-0365, Frito-Lay

**NARRATIVE:** (continued)

officials state that there is no duplication of training under these projects because the sales division employees have different training needs from the distribution center personnel.

The sales division utilizes Route Sales Representatives (RSR) and District Sales Leaders (DSL) to order, deliver, and merchandise its products "on the spot". The RSRs are responsible for distributing approximately three-quarters of the packaged goods produced by the Rancho Cucamonga and Kern manufacturing plants. As such, the RSRs, through their distribution of the majority of products manufactured at these two facilities, are an extension of the manufacturing function. Consequently, the regional distribution centers are subject to the same out-of-state competition faced by the manufacturing plants. Therefore, both the Frito-Lay distribution centers and the sales staff who are housed at these facilities are eligible for ETP funding under the out-of-state competition provisions specified in Title 22, California Code of Regulations, Section 4416 (a) (1, 2), for facilities primarily engaged in manufacturing.

This project encompasses training for all 16 Frito-Lay distribution centers located in Southern California, and is designed specifically for the RSRs and DSLs who are housed at these facilities. These distribution centers receive the products from the manufacturing plants. Products are loaded onto trucks and the RSRs deliver their merchandise to customers located in their respective areas, such as grocery stores, drug stores, club stores, retail establishments, and "Mom & Pop" stores located in Southern California. Currently, RSRs are challenged to maintain truck inventory, merchandise their products in stores, provide sales and product information to customers, and maintain paperwork to ensure proper accounting of sales and inventory. The DSLs are front-line managers, whose responsibilities include managing RSR performance, making sales presentations to customers, maintaining profitability and managing change.

To continue to compete in the Convenience Food Industry, increase profitability, increase market shares, decrease customer complaints, cut costs, and ultimately increase productivity in the manufacturing plants, Frito-Lay is implementing new strategies and corporate goals for the RSRs and DSLs. Officials at Frito-Lay feel that by empowering the workforce with ownership of their routes, RSRs can increase their decision-making and problem solving skills, thereby moving the company to a high-performance workplace. To that end, the company is implementing new systems for the delivery of its products, and new job requirements for the RSRs.

Currently, RSRs carry truck inventory each day that they feel will be sufficient to meet the needs of the customers that they service on that same day. As a result of this method, many RSRs return to the distribution center with  $\frac{1}{4}$  to  $\frac{1}{2}$  of the product remaining in the trucks. Frito-Lay plans to change this delivery system to a "pre-pick" ordering process for approximately 110 routes over the next 12 months. Under the "pre-pick" system, RSRs will order their products one or more days *in advance* of their scheduled delivery date. This will enable them to better utilize truck space, increase efficiency of the ordering process and utilize their time with accounts more efficiently. This change in the delivery system is significant in the way RSRs and DSLs approach their daily jobs; employees will now have to learn to forecast their business, and take on accounting and financial responsibilities never before required. To perform successfully in their new jobs, formal training is critical.

Additionally, RSRs must now become problem solvers and take on additional decision-making responsibilities. RSRs will be tasked to function autonomously, and provide advanced levels of consultative and exemplary services for customers.

The proposed Business Skills and Continuous Improvement training will provide RSRs with the skills necessary to utilize new merchandising techniques, operate effectively with the new hand-held computer software, manage new account systems, manage inventory control, manage customer needs, and gain

**NARRATIVE:** (continued)

techniques for problem solving and decision-making. DSLs will be trained in Leadership Skills (Continuous Improvement) so that they can successfully lead their teams through change.

Under this proposal 260 full-time RSRs will receive from 42 to 105 hours of Class/Lab and Structured, On-Site training and 42 DSLs will receive from 40 to 90 hours of Class/Lab training. The curriculum is formatted in a menu-style based on the needs of each trainee. All training will be provided by qualified in-house instructors and Frito-Lay will provide its own project administration.

**Supplemental Nature of Training**

Current training for the RSRs and DSLs at the Frito-Lay distribution centers consists of new-hire orientation, on-the-job training in job shadowing, voluntary basic sales skill training, and basic computer skills application training at an annual training budget of approximately \$86,000. This training is part of the company's ongoing training plan, will continue at the company's expense, and is not included in the ETP-funded portion of the proposed Agreement.

The proposed training in Continuous Improvement and Business Skills is the sales division's first-time attempt to offer a formal, mandatory training program for RSRs and DSLs designed to help the employees transition to a high performance workplace. The company has certified that in the absence of ETP funds, Frito-Lay would not be able to dedicate the resources necessary for such a systematic training program, and would be forced to reduce the number of training hours in the curriculum.

**In-Kind Contribution**

Frito-Lay will invest approximately \$227,657 for ETP training related costs, which includes wages and fringe benefits paid to trainees during ETP training.

**COMMENTS:**

**Substantial Contribution**

Title 22, California Code of Regulations, Section 4410 states in part that "a substantial contribution of not less than 30 percent of the total Panel training and administrative costs, exclusive of in-kind contributions and/or any other special contributions required by Panel, shall be imposed on any employer for retraining at a facility which previously benefited, directly or indirectly, from Panel funding under at least two prior Panel agreements at the same facility in the amount of \$250,000 or more." Additionally, the substantial contribution is applied only if both prior Agreements were within the last five years.

There is no substantial contribution applied to the proposed Agreement, because Frito-Lay has yet to benefit from Panel funding under at least two prior Panel Agreements at the same facility in the amount of \$250,000 or more, within the last five years.

**PROPOSED ACTION:**

Staff recommends that the Panel approve this One-Step Agreement if funds are available and the project meets Panel priorities. This recommendation is based on Frito-Lay's stated need to provide its employees with high performance workplace skills to enhance the company's ability to remain competitive and to grow, and to ensure a continuing relationship with its customers. The implementation of this proposed training project will enable the company to remain viable in the California economy.

**TRAINING PLAN:**

<b>Grp/Trainee Type</b>	<b>Types of Training</b>	<b>No. Retain</b>	<b>No. Class/Lab Videocnf. Hrs</b>	<b>No. CBT Hrs</b>	<b>No. SOST Hrs.</b>	<b>Cost per Trainee</b>	<b>Hourly Wage after 90 days</b>
JOBS 1 – 2 Retrainees	MENU: Business Skills, Continuous Improvement	260	14 – 35	0	28 – 70	\$406 - \$1,015	\$12.00 - \$28.31
JOBS 3 – 4 Retrainees	MENU: Business Skills, Continuous Improvement	42	40 – 90	0	0	\$520 - \$1,170	\$25.00 - \$34.90
						<b><u>Prevalent Hourly Wage</u></b> \$17.30	
						<b><u>Average Cost per Trainee</u></b> \$750	
<b><u>Health Benefit used to meet ETP minimum wage:</u></b> N/A						<b><u>Turnover Rate</u></b> 14%	<b><u>% of Mgrs &amp; Supervisors to be trained:</u></b> N/A

**MENU CURRICULUM  
FRITO-LAY, INC.  
Irvine**

**Hours**  
**Class/Lab**

**Job 1: 35 hours**  
**Job 2: 14 hours**  
**Job 3: 90 hours**  
**Job 4: 40 hours**

*Trainees will receive any of the following types of training*

**BUSINESS SKILLS**

**Road to Ownership/Customer Delivery Systems**

- Merchandising
- Inventory control
- Expense management
- Sales settlement
- Business reviews/plans
- Business planning process
- Account blueprints
- Building blocks for successful account development
- Ordering/Process enhancements
- Customer service
- Customer relations
- Managing customer needs

**SOST Trainer Hours**

**Job 1: 1050 hours**  
**Job 2: 308 hours**

**SOST Trainer Activity Plan**

- Make assignments using account blueprints
- Review expense management functions
- Observe trainee conducting selling approaches
- Observe trainees writing orders
- Observe trainees handling and delivering product
- Observe trainees working with customers

<p><b>SOST Competency:</b> Trainees will be able to forecast their business, utilize expense management techniques in order to maintain inventory, process orders and manage customer demand. Trainees will become self-directed and able to transition to a new delivery system.</p>
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## **CONTINUOUS IMPROVEMENT**

### **Frontline Leadership**

- Setting and meeting corporate goals
- Problem solving
- Key performance measures
- Performance optimization
- Decision making for RSRs
- Frontline leadership
- Trade off Analysis (Prioritizing workload)
- Coaching
- Decision making
- Change leadership
- Managing sales settlement for new delivery system
- Facilitating discussion groups